

Message Text

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ACTION ARA-14

INFO OCT-01 ISO-00 EB-08 COME-00 FTC-01 JUSE-00 L-03
CIAE-00 INR-10 NSAE-00 TRSE-00 H-01 /038 W
-----030030 052256Z /65
P R 051806Z MAY 78
FM AMEMBASSY BRASILIA
TO SECSTATE WASHDC PRIORITY 7386
INFO AMCONSUL RIO DE JANEIRO
AMCONSUL SAO PAULO

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E.O. 11652: N/A
TAGS: BRPO, BR
SUBJECT: CLAIM OF BRAZILIAN POLITICAL DISCRIMINATION
AGAINST US COMPANY

REF: STATE 111727

BEGIN LIMITED OFFICIAL USE

1. SUMMARY. EMBASSY AND CONGEN RIO HAVE BEEN WORKING CLOSELY WITH SOUTHWIRE REGARDING SOUTHWIRE'S BID FOR THE CARAIBA METAIS COPPER ROD PROJECT SINCE BEGINNING OF YEAR. EMBASSY IS UNABLE TO EITHER PROVE OR DISPROVE SOUTHWIRE'S ALLEGATIONS THAT POLITICAL PRESSURES ARE BEING EXERTED IN FAVOR OF THE OTHER BIDDER, WEST GERMAN FIRM KRUPP. CARAIBA OFFICIALS CLAIM THAT SOUTHWIRE BID IS \$4.8 MILLION HIGHER THAN KRUPP BID. LOCAL OFFICE OF IDB IS CURRENTLY PREPARING A REPORT ON A COMPLETED INVESTIGATION OF CARAIBA BIDDING PROCESS AT SOUTHWIRE'S REQUEST. THE IDB REP. HAS CONCLUDED THAT THERE IS NO EVIDENCE OF IMPROPRIETY IN CARAIBA BIDDING AND THAT THE KRUP BID IS SUPERIOR. THE IDB REP WILL BE FORWARDING HIS REPORT TO IDB WASHINGTON WITHIN THE NEXT FEW DAYS. EMBASSY DOES NOT PLAN PURSUE FURTHER HIGH-LEVEL REPRESENTATIONS
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TO THE GOB UNTIL WE HAVE COPY OF IDB REPORT, AT WHICH TIME WE WILL CONSIDER WHAT FURTHER REPRESENTATIONS MIGHT BE APPROPRIATE AND EFFECTIVE IN LIGHT OF THE IDB'S FINDINGS. IN THE MEANTIME, IN COURSE OF MEETINGS AND SOCIAL OCCASIONS, WE WILL OF COURSE CONTINUE TO REGISTER EMBASSY'S INTEREST IN GOB'S HANDLING OF SOUTHWIRE CASE. END SUMMARY. END LIMITED OFFICIAL USE.

2. BEGIN UNCLASSIFIED. MISSION HAS WORKED ACTIVELY SINCE EARLY JANUARY IN ATTEMPT TO ENSURE THAT SOUTHWIRE'S BID TO SUPPLY CONTINUOUS COPPER ROD MANUFACTURING SYSTEM FOR CARAIBA METAIS PROJECT IN BAHIA WAS FAIRLY AND FAVORABLY CONSIDERED. EXTENSIVE EFFORTS ON SOUTHWIRE'S BEHALF HAVE INCLUDED ELEVEN SEPARATE MEETINGS WITH CARAIBA METAIS OFFICIALS, NATIONAL ECONOMIC DEVELOPMENT BANK (BNDE) OFFICIALS, AND INTERAMERICAN DEVELOPMENT BANK (IDB) OFFICIALS (BOTH BNDE AND IDB ARE INVOLVED IN FINANCING CARAIBA PROJECT), AS WELL AS SIX LETTERS AND 2 TELEXES TO SOUTHWIRE REPORTING ON STATUS OF COMPANY'S BID. IN ADDITION, MISSION'S RESOURCE OFFICER HAD LENGTHY CONVERSATION IN LATE JANUARY WITH SOUTHWIRE ASSISTANT VICE PRESIDENT KINARD, INCLUDING IN-DEPTH BRIEFING ON CARAIBA PROJECT AND DISCUSSION OF TACTICS TO BE EMPLOYED TO MAXIMIZE COMPANY'S PROSPECTS FOR WINNING CONTRACT.

3. DURING CONVERSATION WITH KINARD, RESOURCE OFFICER EMPHASIZED DESIRABILITY FOR SOUTHWIRE TO UTILIZE FULLY THE RESOURCES AND INFLUENCE OF ITS BRAZILIAN JOINT VENTURE PARTNERS IN ITS EFFORT TO WIN CARAIBA PROJECT. SOUTHWIRE'S PARTNERS ARE SANKYU DO BRASIL, SUMITOMO SHOJI DO BRASIL, AND EQUIPAMENTOS VILLARES S.A. THE LATTER IS A SUBSIDIARY OF ONE OF BRAZIL'S LARGEST INDUSTRIAL GROUPS, AND HAS LIMITED OFFICIAL USE

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CONSIDERABLE ABILITY TO COMMAND GOB ATTENTION. HOWEVER, NO MENTION OF ASSISTANCE REQUESTED OF, OR RENDERED BY, BRAZILIAN PARTNERS HAS BEEN MADE IN ANY OF THE COMMUNICATIONS EMBASSY HAS RECEIVED FROM SOUTHWIRE.

4. KEY FACTORS IN DISPUTE ARE: (A) SOUTHWIRE'S ALLEGATION THAT ITS PRICE IS \$1 MILLION LOWER THAN OTHER BIDDER'S, WEST GERMAN FIRM KRUPP. CARAIBA OFFICIALS, HOWEVER, MAINTAIN THAT SOUTHWIRE'S OFFER IS \$4.8 MILLION HIGHER THAN KRUPP'S. (2) SOUTHWIRE'S CHARGE THAT ROD MILL CONTRACT AWARD HAS BEEN SUBJECT TO PRO-WEST GERMAN POLITICAL PRESSURES WITHIN GOB. EMBASSY HAS BEEN UNABLE TO EITHER VERIFY OR DISPROVE THIS ALLEGATION, AND IN FACT SUCH A CHARGE WOULD BE DIFFICULT TO VERIFY IN ANY CASE. IN ADDITION, THE IDB REP. IN RIO DE JANEIRO INFORMED RESOURCES OFFICER ON MAY 5 THAT HIS INVESTIGATION OF CARAIBA BIDDING PROCEDURES HAS NOT REVEALED ANY IMPROPRIETY. HE SAID THAT CAREFUL RE-EVALUATION OF THE BIDS SPECIFICALLY TOOK INTO CONSIDERATION SOUTHWIRE'S ALLEGATIONS. THE IDB REP. WILL SEND HIS REPORT, INCLUDING RECOMMENDATION TO PROCEED WITH AWARD OF CONTRACT TO KRUPP, TO IDB WASHINGTON WITHIN NEXT FEW DAYS.

5. AS NOTED IN PREVIOUS LETTERS AND TELEXES TO SOUTHWIRE, EMBASSY WILL CONTINUE TO MAINTAIN ACTIVE CONTACT WITH KEY OFFICIALS CONCERNED WITH CARAIBA PROJECT, AND WILL COMMUNICATE DIRECTLY WITH SOUTHWIRE AS NEW INFORMATION IS DEVELOPED. PENDING RECEIPT OF REPORT OF IDB INVESTIGATION OF SOUTHWIRE'S CHARGES, EMBASSY DOES NOT BELIEVE THAT FORMAL HIGH LEVEL PRESENTATIONS TO GOB ON SOUTHWIRE'S BEHALF WOULD BE APPROPRIATE AT THIS TIME. ONCE REPORT IS IN HAND, EMBASSY WILL CONSIDER WHAT FURTHER REPRESENTATIONS MIGHT BE APPROPRIATE AND EFFECTIVE IN LIGHT OF IDB'S FINDINGS. IN THE MEANTIME, IN COURSE OF MEETINGS AND SOCIAL ENCOUNTERS, WE WILL OF COURSE CONTINUE TO REGISTER EMBASSY'S INTEREST IN GOB'S HANDLING OF SOUTHWIRE CASE. (FYI. SUBSTANCE OF DRAFT IDB REPORT WILL BE LIMITED OFFICIAL USE

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CABLED TO DEPARTMENT AS SOON AS RECEIVED BY RESOURCES OFFICER.
END FYI. END UNCLASSIFIED.
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